



## STATE BOARD OF LAND COMMISSIONERS

Dirk Kempthorne, Governor and President of the Board

Ben Ysursa, Secretary of State

Lawrence G. Wasden, Attorney General

Keith L. Johnson, State Controller

Marilyn Howard, Superintendent of Public Instruction

Winston A Wiggins, Secretary to the Board

### Final Minutes Regular Land Board Meeting April 8, 2003

The regular meeting of the Idaho State Board of Land Commissioners was held on Tuesday, April 8, 2003 in Boise, Idaho. The meeting began at 9:03 a.m. The Honorable Dirk Kempthorne presided. The following members were present:

Honorable Secretary of State Ben Ysursa  
Honorable Attorney General Lawrence G. Wasden  
Honorable State Controller Keith L. Johnson  
Honorable Superintendent of Public Instruction Marilyn Howard

Secretary to the Board Winston A Wiggins

#### • **CONSENT AGENDA**

**Director Wiggins provided background information on the Consent Agenda items.**

**A motion was made by Controller Johnson to approve the Consent Agenda with the exception of Agenda Item Number 4, which was deferred. Superintendent Howard seconded the motion. The motion carried on a vote of 5-0.**

#### **1. Director's Report – *approved***

- A. Interest Rate on Department Transactions – March 2003
- B. Bureau of Surface and Resource Management, Minerals Section, Official Transactions – February 2003
- C. Bureau of Real Estate, Land Sale Section, Official Transactions – February 2003
- D. Bureau of Real Estate, Easement Section, Official Transactions – February 2003
- E. Bureau of Surface and Resource Management, Range Management and Surface Leasing Section, Official Transactions – February 2003
- F. Timber Sale Official Transactions – February 22, 2003 through March 25, 2003
- G. Timber Sale Activity Report

#### **2. Timber Sales – *Staffed by Bob Helmer, Chief, Bureau of Forest Management – approved***

A. Riley Creek	CR-2-0212	4,050 MBF
B. Heinaman Pole	CR-3-0485	1,330 MBF / 190,455 LF
C. White Seed	CR-4-0749	1,790 MBF
D. Lookout Road	CR-4-0754	4,200 MBF
E. Browns Pond	CR-5-0112	6,622 MBF
F. Paradise	CR-6-0158	4,400 MBF
G. Middle Scriver	CR-6-0163	3,305 MBF

**DISCUSSION – F. PARADISE:** Attorney General Wasden noted that this sale is a clearcut. He asked about the re-seeding process. Bob Helmer, Chief, Bureau of Forest Management, responded the Department replants with plantation stock anytime there is a clearcut. Director Wiggins added most of the time, in moister, higher productivity sites, the Department relies on natural regeneration from adjacent

stands. However, the southern part of the state, which is drier, is usually replanted with Ponderosa pine and Douglas fir.

**3. Request for Approval to Advertise Public Hearing for Surplus Sale of Idaho Department of Fish and Game Property at Eagle Island – Staffed by Perry Whittaker, Chief, Bureau of Real Estate – approved**

**DEPARTMENT RECOMMENDATION:** That the Board direct the Department to advertise a public hearing regarding transfer of the 0.1-acre parcel to the Idaho Department of Parks and Recreation in the absence of adverse comments at the public hearing.

**BOARD ACTION:** Approved.

**4. Request for Conceptual Approval – 2003 Land Bank Sale Plan – Staffed by Susan Robbins, Real Estate Specialist – deferred**

**DEPARTMENT RECOMMENDATION:** That the Board conceptually approve the 2003-2004 Land Sale Plan and direct the Department to proceed with appraisals.

**DISCUSSION:** Secretary of State Ysursa asked if House Bill 305, effective July 1, 2003, has any bearing on this discussion. Director Wiggins responded these properties would most likely fall under the five-year calculation. Governor Kempthorne stated HB 305 was a recommendation of the 2020 Blue Ribbon Task Force, and the bill was signed last week in front of the members of that committee.

Attorney General Wasden observed that the Buttercup property is an expensive piece of property with great development potential. He would like to know the best way the State can produce dollars from the parcel. Director Wiggins responded the plan is conceptual only. An analysis would be brought to the Board for each parcel with a proposal.

Attorney General Wasden stated Clear Creek lots 3 and 4 appear to be the same kind of concept. Director Wiggins stated the Department has a recent summary analysis showing how to proceed on those two lots. Department employee Susan Robbins did a great job in preparing that analysis. Attorney General Wasden stated part of his concern is the timing. Director Wiggins responded that Ms. Robbins identified not only the timing, as far as whether to auction this year or later, but she also recommended the best time of year to offer the parcels.

Superintendent Howard stated she is uncomfortable with listing Buttercup. She feels the listing signals intent to sell in a determinate amount of time. Since these two properties have more value, Superintendent Howard asked for additional detail from staff about future plans. Secretary of State Ysursa recommended that a strategic plan be developed showing the intent of the Land Board and the Department on these sales. Governor Kempthorne suggested holding this agenda item until June, or later, to allow additional discussion.

As a point of clarification, Director Wiggins stated the Department created this list to identify low- or non-revenue generating lands. Traditionally, the Department has brought this plan to the Board in the spring for conceptual approval to allow the appraisal process to begin.

**BOARD ACTION:** This agenda item was deferred.

**5. Fiscal Year 2004 Deferred Road Maintenance Projects – Staffed by Bob Helmer, Chief, Bureau of Forest Management – approved**

**DEPARTMENT RECOMMENDATION:** That the Board direct the Department to proceed with the proposed road maintenance.

**BOARD ACTION:** Approved.

**6. Idaho Forest Products Commission – Timber License Plate Fees – Staffed by Betty Munis, Idaho Forest Products Commission – *approved***

**DEPARTMENT RECOMMENDATION:** That the Board direct the Department, in conjunction with the Idaho Forest Products Commission, to proceed with the recommended educational projects.

**BOARD ACTION:** Approved.

**7. Final Minutes – *approved***

A. Regular Land Board Meeting – March 11, 2003

- **REGULAR AGENDA**

**8. Fiscal Year 2004 Timber Sales Plan – Presented by Ron Litz, Assistant Director, Forestry & Fire – *approved***

**DEPARTMENT RECOMMENDATION:** That the Board direct the Department to proceed with publication of the FY-2004 Timber Sales Plan.

**DISCUSSION:** Governor Kempthorne commented this is the 2004 conceptual plan. Each sale will be individually presented to the Board for approval.

**BOARD ACTION:** A motion was made by Secretary of State Ysursa to approve the FY-2004 Timber Sales Plan. Attorney General Wasden seconded the motion. The motion carried on a vote of 5-0.

**9. Award of Grazing Permit on State Land Near Weippe – Presented by Jay Biladeau, Assistant Director, Lands, Minerals, Range – *see below for Board Action***

**DEPARTMENT RECOMMENDATION:** That the Board direct the Department to issue a Temporary Permit for the 2003 grazing season to Lacey Meadows Grazing Association as the best alternative to address the Department's management concerns during the 2003 grazing season. **(see below for Board Action)**

**DISCUSSION:** A transcript of this agenda item is available upon written request to Susan Terry, Idaho Department of Lands, Post Office Box 83720, Boise, Idaho 83720-0050.

- *At 9:40 a.m., a motion was made by Attorney General Wasden to move further discussion on agenda item number 9 to Executive Session. Superintendent Howard seconded the motion. The motion carried on a vote of 5-0.*

(At this point, the Land Board moved from agenda item number 9 to agenda item number 10, Endowment Fund Investment Board's Manager's Report and joint meeting with the Endowment Fund Investment Board. However, the EFIB was not presently in attendance. Therefore, Governor Kempthorne suggested that agenda item number 10 be delayed until after the Executive Session and that the Board enter into Executive Session to continue with agenda item number 9.)

- *At 9:45 a.m., a motion was made by Attorney General Wasden to resolve into Executive Session. Controller Johnson seconded the motion. The motion carried on a vote of 5-0.*

- **Executive Session**

**A. To Consider and Advise Its Legal Representatives in Pending Litigation or Where There is a General Public Awareness of Probable Litigation [\[Idaho Code § 67-2345\(1\)\(f\)\]](#)**

- *At 10:26 a.m., a motion was made by Attorney General Wasden to resolve into Regular Session. Secretary of State Ysursa seconded the motion. The motion carried on a vote of 5-0. No actions were taken by the Land Board during the Executive Session.*

**BOARD ACTION (Agenda Item #9):** Upon return to Regular Session, a motion was made by Attorney General Wasden to accept the recommendation of the Department that Lacey Meadows Grazing Association be awarded a temporary permit upon two conditions. First, that in the instance of non-performance by Lacey Meadows Grazing Association, the Department undertake performance on behalf of the Association and assess the Association the costs associated with that performance. Second, that upon non-performance, the permit be terminated with the Association. Secretary of State Ysursa seconded the motion. The motion carried on a vote of 5-0.

**10. Endowment Fund Investment Board's Manager's Report – Staffed by Matthew Haertzen, CFA, Manager of Investments – no action taken**

At this point, State Treasurer Ron Crane and the Endowment Fund Investment Board, represented by Bill Mitchell, Tom Kealey, Dean Buffington and Gavin Gee, joined the Land Board meeting.

Governor Kempthorne stressed the importance of transparency. He asked Mr. Haertzen and Mr. Lou Henry, Deloitte Touche, to regularly keep the Land Board informed of any concerns so when the next audit is completed, the Land Board will know those concerns were previously addressed. Governor Kempthorne believes joint meetings with the EFIB are important to enhancing communication.

Mr. Matt Haertzen, EFIB, and Mr. Lou Henry, Deloitte Touche, reviewed highlights from the FY 2002 audit.

**A. Audit**

- a. Fiscal Year 2002 Audit**
- b. Executive Summary**
- c. Manager's Report on Audit**
- d. Draft Audit Policy**

**DISCUSSION:** Governor Kempthorne asked if any trends have been noted with the Endowment Fund. If yes, is the trend positive or negative. He also expressed interest in trends of other states with regard to endowment funds. If trends are developing, Governor Kempthorne suggested the need to take corrective action before there is a need to react.

Referring to the audit, Mr. Gavin Gee, Endowment Fund Investment Board member, commented that Mr. Haertzen has proactively addressed suggestions made by the auditor. The EFIB will follow up on any needed changes to address policies and will follow up on Governor Kempthorne's suggestion regarding trends. The EFIB is pleased with the overall audit.

Governor Kempthorne commented the role of an auditor is to report on accuracy and what has happened. The EFIB auditor, Deloitte Touche, is networked throughout the United States and has exposure to problems experienced by other states. Governor Kempthorne asked Mr. Henry if he could pass that kind of information on to Mr. Haertzen. The Land Board would like to be pro-active in addressing issues. Mr. Henry stated he could.

Governor Kempthorne asked about the current auditor contract. Mr. Henry stated the contract goes to competitive bid next year. Deloitte Touche has held the contract since 1996. Mr. Haertzen stated the EFIB is currently working with the Department of Administration, Purchasing, to develop a new RFP. The RFP will be sent out after the August 2003 EFIB meeting. Governor Kempthorne asked Mr. Haertzen to alert the Land Board if he sees anything that causes him concern in the RFP wording.

The Land Board wants to make sure that it does not lose any decision-making authority through the RFP process.

Controller Johnson expressed his appreciation for the quality of the audit. He echoed Governor Kempthorne's comment about a need for transparency and stated he is pleased that the Boards are meeting together to discuss issues that have importance to the State and to the endowments.

## **B. New Managers**

Mr. Haertzen introduced John Pickett, RBC Dain Rauscher, Dallas, Texas. Mr. Pickett provided a review of the screening process used to select managers. Currently, Mr. Pickett is helping to draft guidelines, to negotiate fees and is assisting in the transition from the current managers to the new managers.

**DISCUSSION:** Controller Johnson asked Mr. Haertzen to describe why the Russell 3000 was chosen as the index and what other indices might be available. Mr. Haertzen stated the Russell 3000 is a broad domestic equity benchmark. The Russell 3000 encompasses close to 99% of the capitalization of the U.S. market. It is very broad-based, including large, mid and small. The other big choice is the Wilshire 5000. The Russell 3000 was chosen because it represents the broad market just as well as the Wilshire 5000, but it is a smaller sampling.

Governor Kempthorne asked if there is any advantage to uniformity among the different major accounts. Treasurer Ron Crane commented what is reflected is different goals for different funds. He believes the Russell 3000 is an excellent benchmark.

At this time, each new manager provided a presentation to the Board.

### **a. Cash – Clearwater Advisors, LLC [Michael Boren; Douglas Bates]**

**DISCUSSION:** Governor Kempthorne asked if there is a higher risk associated with Clearwater's method of handling the Endowment cash funds. Mr. Boren stated based on the Endowment Fund's investment policy, the risk would not be higher. The account will be more restricted than a money market fund and will have a slightly higher yield.

Treasurer Crane commented the EFIB has made an excellent choice in selecting Clearwater Advisors. Clearwater Advisors manages cash for the State Treasurer's office. In addition, the Treasurer's office uses Clearwater Advisors for intermediate investments, such as the Petroleum Storage Trust Fund. Treasurer Crane remarked the beautiful thing about Clearwater Advisors is he can sit in his office and, using his personal computer, he can log on to Clearwater's web site. He can monitor each individual trade in real time along with the instruments purchased. The Treasurer's office has an investment policy for fixed income investments and, by logging on, Treasurer Crane can see if Clearwater is in compliance.

### **b. Mid-Cap Growth – Artisan Partners [Floyd Dukes]**

**DISCUSSION:** Attorney General Wasden asked about risk and market beta. Mr. Dukes responded in managing profit cycles there will be times when Artisan will look different from the benchmark, but that is the process. The benchmark by definition is a very backward looking mechanism. Historically, Artisan's beta will be below the market average simply because the company has adhered to their process. It is a fundamental bottom-up stock selection. Artisan generally will be on the more conservative side of growth as a whole.

### **c. Mid-Cap Value**

- Oppenheimer Capital [Walt McGhee]
- Systematic Financial Management [Eoin Middaugh, CFA]

## ITEM NOT ON THE AGENDA

[House Bill 83](#). At 12:00 p.m., Governor Kempthorne paused to sign House Bill 83, Endowment Land, Long-Term Lease. HB 83 amends existing law to add two parcels of State Hospital South Endowment Lands and one parcel of public school endowment lands to the property available for long-term leases by the State Board of Land Commissioners. This legislation will increase revenue to the endowment beneficiary through long-term leasing to Tamarack Resort, Cascade, Idaho. Witnesses to the signing of the bill included Representative Ken Roberts (*Donnelly*), Senator Skip Brandt (*Kooskia*), Jean-Pierre Boespflug, Dave Scott and Ken McClure.

- *At 12:10 p.m., a brief recess was taken. At 12:34 p.m., the regular meeting of the Land Board resumed with Matt Haerten, Manager of Investments for the Endowment Fund Investment Board, continuing his report.*

### d. Index Fund Manager – Northern Trust

**DISCUSSION:** Mr. Haerten stated the change here is a move from Key Bank to Northern Trust. The reason for this change is Key Bank does not have the flexibility that Northern Trust has. In addition, Key Bank would cost an additional \$43,000 a year and would not guarantee securities lending revenue. At Northern Trust, the total fee for the index portion would be \$43,000 less plus a 60% share in securities lending revenue.

Governor Kempthorne asked about the business arrangement with Key Bank and if Key Bank is aware of this change. Mr. Haerten responded all contracts have an immediate termination clause, and he has discussed this matter with Key Bank extensively. Governor Kempthorne asked Mr. Dean Buffington, EFIB member, for his opinion on this change. Mr. Buffington stated he believes this is a positive move. The EFIB is continuing to keep a major relationship with Key Bank as its Custodian while moving to an organization, Northern Trust, that has a greater ability to deliver the index fund and reduce cost. Mr. Buffington stated he is very supportive of this change.

## C. Consultant Request for Proposal (RFP) Progress

### a. Reduced Cost for Remainder of Current Contract

**DISCUSSION:** The Department of Administration, Purchasing, issued an RFP for a new Board consultant. Thirteen responses were received. The EFIB is in the process of narrowing the responses. The EFIB will conduct final interviews and selections with the expectation that a selection will be made during the month of May.

## D. Cash Flow

### a. July Payment

Mr. Haerten stated the EFIB needs direction from the Land Board before July.

**BOARD ACTION:** No action was taken on this agenda item.

- *At 12:45 p.m., a motion was made by Attorney General Wasden to resolve into Executive Session. Secretary of State Ysursa seconded the motion. The motion carried on a vote of 5-0.*

## • Executive Session

**To Consider Records that are Exempt from Disclosure as Provided in Chapter 3, Title 9, Idaho Code** [Idaho Code § 67-2345\(1\)\(d\)](#)

- *At 1:15 p.m., the Land Board unanimously resolved into regular session. No actions were taken by the Land Board during the Executive Session.*

There being no further business to come before the Land Board, the meeting adjourned at 1:16 p.m.

IDAHO STATE BOARD OF LAND COMMISSIONERS

/s/ Dirk Kempthorne

President, State Board of Land Commissioners and  
Governor of the State of Idaho

/s/ Ben Ysursa

Ben Ysursa  
Secretary of State

/s/ Winston A Wiggins

Winston A Wiggins  
Director

The above-listed final minutes were approved by the State Board of Land Commissioners at the May 13, 2003 regular Land Board meeting.